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DEPT FOR E - U/S JEFFERY  
DEPT FOR EAP DAS MARCIEL AND EB/IFD DAS DIBBLE  
MCC FOR AMBASSADOR DANILOVICH AND MORFORD  
AID FOR DEPUTY ADMINISTRATOR KUNDER AND ANE WARD  
TREASURY FOR A/S LOWERY  
DEPT PASS USTR FOR SCHWAB

E.O. 12958: N/A

TAGS: [ECON](#) [KMCA](#) [KCOR](#) [KJUS](#) [TBIO](#) [ID](#)

SUBJECT: SUCCESS OF INDONESIA'S MCC THRESHOLD PROGRAM

11. Summary: Indonesia's two-year, \$55 million Threshold Program focuses on the Control of Corruption (\$35 million) and Immunization Coverage (\$20 million), two areas where Indonesia fell short on its FY 2006 MCC indicator Scorecard. The Threshold Program projects, operational since April 2007, have already yielded results and continue to demonstrate the GoI's strong commitment to the Threshold Program as well as its goal of achieving Compact eligibility. Indonesia's performance on its Threshold Program to date bolsters the country's improved MCC indicator scores as a reason for its serious consideration as a Compact eligible country when the MCC Board meets on December 12. End Summary.

#### Background of the Threshold Program

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12. At its November 2005 Board meeting, MCC selected Indonesia to participate in the Threshold Program. The United States-Government of Indonesia bilateral agreement for Indonesia's Millennium Challenge Corporation (MCC) Threshold Program was subsequently signed in November 2006. USAID Indonesia and the Economic Section worked closely with the Government of Indonesia (GoI) to support development of its Threshold Plan as well as to support the MCC Investment Board's review and analysis of the Threshold Plan. While acknowledging the final Threshold Plan is ambitious there was consensus to move forward. Indonesia's MCC Threshold Program is a two-year, \$55 million grant program focused on the Control of Corruption and Immunization coverage indicators, two indicator areas where Indonesia fell short on its FY05 Scorecard. The Threshold Program projects, managed by USAID Indonesia, have been operational since the first quarter of CY 2007.

#### Control of Corruption

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13. The Control of Corruption component of the Threshold Program totals \$35 million. One component, consisting of a \$24 million project, builds capacity at the Corruption Eradication Commission (KPK); the Financial Transaction Reports and Analysis Center (PPATK); the Supreme Court; and the National Development Planning Agency's (BAPPENAS) e-procurement pilot project. A second component, managed by the Department of Justice's International Criminal Investigative Training Assistance Program (ICITAP) through an interagency agreement with USAID, consists primarily of the procurement of specialized equipment for the KPK and PPATK to enhance their communications and surveillance capacity as part of their mandates to combat corruption and money laundering.

#### Judicial Sector Reform

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¶4. There is a consensus among donors and the GoI itself that reform of the Supreme Court and the broader judicial sector is of paramount importance in successfully combating corruption in Indonesia. Judicial reform is the most challenging of the MCC Threshold Program components: the Supreme Court is an independent branch of the government and where entrenched interests and opportunities for corruption are abundant. Nonetheless, Post has been impressed by the commitment to judicial reform of senior GoI officials as well as key senior Supreme Court Justices and bureaucrats.

¶5. Threshold Program activities have begun in earnest and include:

- Developing the curriculum for, and training judges on, the newly-adopted Judicial Code of Conduct.

- Training senior-level court personnel on wealth reporting and wealth report monitoring requirements.

- Developing job descriptions and performance standards.

- Improving the Court's budgeting process and accountability.

- Publishing Supreme Court decisions online and enhancing the Court's website (see <http://www.putusan.net/app-mari/putusan>).

- Implementing public complaint procedures and distributing corresponding public awareness materials.

- Developing guidelines to publicly release disciplinary information concerning court personnel and the judiciary.

The Supreme Court has sent a letter to MCC expressing its commitment to continue key elements of the Threshold Program after the

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conclusion of the project.

Improved Capability of the Financial Transaction  
Reports and Analysis Center (PPATK)

¶6. The PPATK is a committed and effective government organization and a strong proponent of combating money-laundering in Indonesia. Indonesia was removed from the FATF Non Cooperating Countries and Territories list on February 11, 2005 and from its direct monitoring list in February 2006. Yunus Hussein, head of the PPATK, is also a supportive counterpart on other USG assistance efforts to combat money laundering. Key PPATK-related components of the Threshold Program include:

- Enhancing the "Know Your Customer" education and public awareness campaign by introducing it to non-bank financial institutions to detect and report suspicious transactions that may indicate money laundering activity.

- Increasing the capacity to receive and analyze online financial transaction reports.

- Establishing an online communications system between PPATK and law enforcement agencies to enhance their information-sharing ability.

Improve the Capability of the  
Corruption Eradication Commission (KPK)

¶7. The KPK is Indonesia's lead agency in combating corruption and has delivered on its mandate with a significant conviction rate over the past year. The current KPK Board's tenure is coming to an end and a new Board is in the process of being vetted, selected and appointed. The KPK works closely with Post on a variety of projects and engagements. Key KPK-related components of the Threshold Program include:

-- Providing equipment and training to improve the KPK's technical capabilities to investigate and prosecute corruption cases.

-- With the assistance of Transparency International - Indonesia, expanding collection of data for a Bribery Index and an expanded TI Corruption Perception Index.

-- Procuring specialized communications equipment to support corruption investigations and prosecutions.

#### Implement Electronic Government Procurement (e-GP)

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18. BAPPENAS's Center for Development of Public Procurement Policy is tasked with developing and promoting the e-GP system and has created the Indonesian National E-Procurement Center. The Threshold Program supports the national endeavor by:

-- Supporting establishment of five regional government e-procurement centers.

-- Supporting collection of baseline data from the five centers to reduce single-source procurements and help identify suspicious and inappropriate activity.

#### Promoting Increased Immunization Coverage Rates

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19. The GoI proposed a very ambitious immunization component to its Threshold Plan, reflecting its renewed emphasis on basic immunization and investing in people. The GoI recently initiated a World Health Organization (WHO) standard "cluster survey" to gain greater data, analysis and insights into actual immunization coverage rates. The Threshold Plan provides technical assistance supporting the GoI's efforts to rapidly increase routine immunization coverage rates among infants, enabling Indonesia to score above 80.5% coverage on the MCC Immunization Coverage indicator. Specific areas of support include:

-- Providing technical assistance for developing revised national immunization strategies for routine services.

-- Increasing commitment from policy makers at national, provincial and district levels.

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-- Building capacity of immunization health staff in both public and private sectors.

#### Threshold Program Already Yielding Results

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10. While the GoI and the people of Indonesia deserve credit for undertaking bold reform initiatives, the MCC Threshold Program support has yielded some key results to date.

-- The KPK has exceeded its Threshold Program target of monitoring Supreme Court sessions in the greater Jakarta area.

-- The KPK met its Threshold Program target for the number of KPK corruption prosecutions of high-level government officials.

-- PPATK has exceeded the percentage targets of suspicious transaction reports (STRs) filed by non-bank financial institutions.

-- These are but three key examples of specific targets that have already been achieved under the Threshold Program.

Threshold Program Performance Supports Compact Eligibility. Indonesia's ambitious Threshold Program is one part of the GoI's and President Yudhoyono's overall reform agenda to support a democratic, free-market Indonesia that is a responsible and active member of the international community. Indonesia's performance on its Threshold Program to date bolsters the country's improved MCC indicator scores

and further argues for its serious consideration as a Compact eligible country when the MCC Board meets on December 12.

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